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## I. CODE OF BUSINESS CONDUCT AND ETHICS (As adopted on September 30, 2008)

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**Issued By:** Chief Financial Officer

**Approved By:** Board of Directors

**Updated:** May 15, 2012

### **PURPOSE AND STATEMENT OF POLICY**

Employees, officers and directors represent Epsilon Energy Ltd. ("Epsilon" or "Company") and are expected to demonstrate a commitment to high standards of ethical conduct to insure honesty and integrity in all business practices. All employees, officers and directors are encouraged to promote a culture of honesty, integrity, ethical behaviour and accountability within the Company.

This Code of Business Conduct and Ethics ("Code") has been adopted by the Board of Directors to outline the basic ethical principles that guide the conduct of all individuals working for or representing Epsilon. These principles are applicable in all countries in which the Company operates, unless the laws of those countries require a higher standard. In some circumstances, more specific policies exist on the topics referred to in this Code. This Code is intended to be a statement of basic principles and standards and does not include specific rules that apply to every situation. Its contents must be viewed within the framework of the Company's other policies, practices, instructions and the requirements of applicable laws, rules and regulations. Moreover, the absence of a specific corporate policy, practice or instruction covering a particular situation does not relieve you of the responsibility for exercising the highest ethical standards applicable to the circumstances.

If after reviewing this Code you have any additional questions or concerns, please seek additional guidance from your supervisor or the Chief Financial Officer. Violation of this Code may result in a disciplinary action, varying from reprimand to dismissal.

### **COMPLIANCE WITH LAWS, RULES, AND REGULATIONS**

All Epsilon business will be transacted in compliance with all applicable laws, rules and regulations of the various countries where the Company conducts business. If a law, rule or regulation is unclear or conflicts with a provision of this Code, the Chief Financial Officer should be consulted. In accordance with the Corruption of Foreign Public Officials Act or other similar applicable law, no employee, officer or director shall directly or indirectly give, offer or agree to give or offer a loan, reward, advantage or benefit of any kind to a foreign public official.

## CONFLICTS OF INTEREST

All employees, officers or directors must conduct business affairs in the best interest of Epsilon and should therefore avoid situations where their private interests interfere in any way with Epsilon's interests. Each individual needs to be especially sensitive to situations that have even the appearance of impropriety and promptly report them to a supervisor or, if appropriate, Epsilon's Governance Committee. Some examples of possible conflicts include:

- **Financial Interest** – individuals and their families (including spouse, children or spousal equivalent, i.e. residing together) shall not own, control or direct a material financial interest in a supplier, contractor, competitor, or in any business enterprise which does or seeks to do business with Epsilon
- **Outside Business Activities** – Individuals shall not engage in any outside business activity that is detrimental to Epsilon. Unless approved in the employment contract or by your supervisor, individuals are expected to spend the applicable time and attention as defined by their position, performing their jobs during normal business hours or as contracted.
- **Outside Directorships** – Individuals shall not serve as a director, officer, partner, consultant or any other role in unaffiliated profit-making organizations if that activity is detrimental to the Company.
- **Gifts and Entertainment** – Individuals must be prudent in offering or accepting gifts (including tickets to sporting, recreational or other events) to or from a person or entity with which Epsilon does or seeks to do business. It is understood that business entertainment and gifts are meant to create goodwill and sound working relationships, not to gain unfair advantage with customers or suppliers. No offer or gift or entertainment is accepted unless it: (a) is not a cash gift, (b) consistent with customary business practices, (c) is not excessive in value, (d) cannot be construed as a bribe or payoff, and (e) does not violate any laws or regulations. Any questionable gift or invitation should be discussed with a supervisor, or, if appropriate the Governance Committee.
- **Customer and Supplier Relations** – All customers, suppliers and independent contractors purchasing or furnishing goods and services must be dealt with fairly. Decisions to hire a subcontractor or source materials from a particular vendor must be made on the basis of objective criteria such as quality, reliability, technical excellence, price, delivery, service and maintenance of adequate sources of supply.
- **Government and Community Relations** – Epsilon's financial support to political organizations requires the express approval of the Executive Chairman and Chief Financial Officer of Epsilon. Individuals engaging in personal political activities must do so in their own right and not on behalf of Epsilon. Corporate donations to charities made on behalf of Epsilon shall be within budgets approved by the Board of Directors.
- **Personal Relationships** – Individuals shall avoid any arrangements or circumstances, including personal relationships, which may compromise his or her ability to act in the best interest of Epsilon. Individuals shall not supervise directly or be in a position to influence the career of someone with whom he or she is engaged in a personal relationship.

It is Epsilon's policy to identify and acknowledge in writing (in an employment or other agreement) certain directorships, relationships or ownership interests, and the terms thereof, that are acceptable to the Company but that might otherwise appear to represent a conflict of interest. Such relationships or ownership interests so acknowledged will not be prohibited by this Code. Any changes to such terms must be promptly reported to and approved by the Executive Chairman and Chief Financial Officer, provided that changes to terms set out in an employment agreement may require the approval or waiver by the Board of Directors or the Governance Committee, depending on the materiality and nature of the changes.

All situations where a conflict of interest has occurred, or has the potential to occur, should be reported and steps taken to eliminate or mitigate such conflict, including, if necessary, enlisting the assistance of

management. If you believe a conflict of interest has occurred or cannot be avoided, you are required to disclose such conflict in writing to the Chief Financial Officer with a copy to the Executive Chairman.

If you encounter a transaction, relationship or other circumstances that you believe creates or may create a conflict of interest, you should promptly report this concern. Information regarding how to report such a concern is included below in this Code under the heading "Reporting Illegal or Unethical Behaviour." It is Epsilon's policy that transactions, relationships and circumstances that pose a conflict of interest are prohibited.

## **CORPORATE OPPORTUNITY**

Individuals should not take for themselves personal opportunities that properly belong to Epsilon or are discovered through the use of corporate property information or position, and that would reasonably be expected to be of interest to the Company, without the consent of the Board of Directors. All employees, officers and directors are prohibited from directly competing with the Company.

## **CONFIDENTIALITY**

During the course of employment or engagement with Epsilon, access is given to information that is non public, confidential, privileged or of value to competitors. Confidential information includes proprietary information such as trade secrets, patents, trademarks, business forecasts, marketing plans, engineering and geologic plans, ideas, concepts, designs, data and databases, records, salary information and unpublished financial data and reports, as well as any non-public information that might be of use to competitors or harmful to Epsilon, its partners or customers if disclosed. It may also include information that partners and potential partners have entrusted to us on a confidential basis.

All individuals associated with Epsilon must protect the confidentiality of information concerning the Company and its business activities as well as that of companies having business dealings with Epsilon. This personal obligation not to disclose confidential information continues even after employment ends.

Some situations involving confidential information include:

- **Technical, Business and Commercial Data** – All individuals associated with Epsilon must ensure against improper disclosure of competitive business strategies and plans, special methods of operation, technical innovations, and other information that may be of value to competitors of Epsilon
- **Insider Trading** – securities laws explicitly prohibit any person in a special relationship with Epsilon from trading with knowledge of "material non-public information" or "insider information" which has not been generally disclosed. It is Epsilon's policy that no employee, officer or director may trade in Company stock on the basis of material, non-public information concerning the Company, nor are there to be "tips" to others who may trade in Company stock. Those possessing confidential information are expected to show integrity and use proper judgment in timing their investments. See the Company's Insider Trading Policy for further details
- **Media/Public Discussion** - If responding to questions by a representative of the news media or investment community is not part of an employee, officer or director's regular duties, the media representative must be referred to the appropriate Company spokesperson. See the Company's Disclosure Policy for further details.

Unauthorized use or distribution of confidential information is prohibited and could also be illegal, resulting in a civil or even criminal penalties.

## **CORPORATE RECORDS**

The integrity of Epsilon's financial records is essential as shareholders, potential investors, regulatory agencies, lending institutions and others depend on the accuracy of the financial statements which are generated from these financial records. Epsilon strictly prohibits anyone from engaging in any actions, omissions or practices, whether intentional or reckless, that would result in rendering its financial statements materially inaccurate or misleading or that circumvent the established internal and/or disclosure controls. Every individual involved in creating, transmitting or entering information into the Company's financial and operational records is responsible for doing so fully, accurately and with appropriate supporting documentation.

## **FINANCIAL REPORTING**

As a publicly traded company on the Toronto Stock Exchange (TSX), it is imperative that Epsilon's financial and other filings with the System for Electronic Document Analysis and Retrieval (SEDAR) fully, accurately, timely and fairly reflect all financial transactions in the accounting records. The financial statements must fairly present the financial position and results of operations, in all material respects, in accordance with International Financial Reporting Standards. Press releases and other public statements issued about the business, financial condition and results of operations are subject to the same scrutiny as Epsilon insures full, fair, accurate, timely and understandable disclosure in the reports and documents filed.

Depending on their respective positions with Epsilon, employees, officers or directors may be called upon to provide information necessary to ensure that the company's public reports are accurate. Cooperation and open communication is required within the various departments of the organization and with the outside auditors. While the ultimate responsibility for the information included in these reports rests with executive management, numerous other employees participate in the preparation of these reports or provide information included in these reports. Disclosure controls and procedures are in place and expected to be adhered to, so that the information included in the reports, press releases and other public statements are collected and communicated to executive management in order to insure timely disclosure of the required information. See the Company's Disclosure Policy for further details.

If you have questions or are uncertain as to how the reporting or disclosures apply in a specific circumstances, promptly contact your supervisor or the Chief Financial Officer. Epsilon encourages anyone to ask questions and seek advice. Additional information regarding how to report your questions or concerns (including on a confidential, anonymous basis) is included below in this Code under the heading "Reporting Illegal or Unethical Behaviour."

## **PROTECTION AND PROPER USE OF COMPANY ASSETS**

All employees, officers and directors are responsible for protecting Epsilon assets. Certain internal controls have been established to safeguard these assets against loss from unauthorized or improper use or disposition. Theft, carelessness, and waste of corporate assets have a direct impact on profitability and should be avoided. Any suspected incident of fraud or theft should be immediately reported to a supervisor or, if appropriate, the Chief Financial Officer for investigation.

## **COMPETITION AND FAIR DEALING**

Epsilon seeks to outperform the competition fairly and honestly by finding and developing oil and gas prospects, acquiring producing and non-producing oil and gas properties and marketing the produced products. The Company does not engage in unethical or illegal business practices such as stealing proprietary information, obtaining such information without the owner's consent, or inducing disclosure of this type of information by past or present employees of the other companies.

## **EMPLOYMENT PRACTICES**

Epsilon is committed to providing a workplace environment where employees, officers and directors are treated with dignity, fairness and respect and where the diversity of each employee is recognized as an asset to the company. The following summarize key employment practices:

- **DISCRIMINATION** – Epsilon provides equal opportunity in all aspects of employment and will not tolerate discrimination or harassment of any kind. Epsilon will not refuse to employ, nor discriminate against based on racial, national or ethnic origin, color, religion, age sex (including pregnancy or child-birth) marital status, all as defined by the Canadian Human Rights or other similar applicable law
- **HARRASSMENT** – Any form of harassment including derogatory comments, unwelcome sexual advances and similar behaviour are strictly prohibited
- **DRUG & ALCOHOL** – All employees, officers and directors shall report to work in appropriate condition to perform their duties, free from the influence of illegal drugs or alcohol. The use of illegal drugs or alcohol will not be tolerated in the workplace

## **EXCEPTIONAL PERFORMANCE BONUS POLICY**

Epsilon values its people, their commitment and the contribution they make to the Company. As a result, the Company will reward an exceptional individual with a lump sum payment to be made at the end of the fiscal year following the year in which the bonus was awarded.

In order to qualify for the bonus, the following criteria must be met: 1) the contribution was outside the normal expectations of the job and 2) the performance during the contribution and on daily work was outstanding. Please note that results, not effort, are to be rewarded. The amount of the bonus will be determined by senior management. The bonus will be subject to tax and other payroll withholdings.

## **HEALTH AND SAFETY**

As corporate operations are to be conducted in a manner that protects the health and safety of employees and those in the communities where Epsilon operates. To ensure a safe and healthy work environment, safety and health rules and practices are to be consistently followed and accidents, injuries and unsafe equipment, practices, or conditions are to be reported promptly. Additionally, all individuals associated with Epsilon are responsible for supporting the Company's commitment to environmental responsibility. No violence or threatening behaviour is permitted in the workplace.

## **REPORTING ILLEGAL OR UNETHICAL BEHAVIOUR**

You have a duty to adhere to this Code of Business Conduct and Ethics and all other Company policies and procedures and to report any suspected violations. In order to encourage reports of illegal or unethical behaviour (including violations of this Code), all reports are kept confidential and Epsilon does not allow retaliation for good faith reports of possible misconduct by others. Full cooperation is expected if internal investigations of alleged misconduct result from such incidents.

If for some reason you do not believe that your concerns have been appropriately addressed, you should seek advice from the Corporate Governance Committee. Alternatively, there are procedures established to permit confidential, anonymous submissions of concerns regarding alleged violations of this Code, including concerns with respect to questionable accounting or auditing matters. Please refer to Exhibit A, attached hereto, in assessing which concerns should be reported. Once a reportable concern is identified, refer to the Whistleblower Policy for more information as to how to submit a confidential, anonymous concern regarding an alleged violation of this Code.

## **INTERPRETATION**

The Governance Committee and the Board of Directors shall have the power and authority to interpret, construe and apply the provisions of this Code both generally and as they apply to any particular potential or actual transaction, relationship or other circumstance. Any such interpretation, construction or application shall be final and binding for all purposes of this Code.

## **CONCLUSION**

The Company's good name and reputation depend, to a very large extent, upon you taking personal responsibility for maintaining and adhering to the policies and guidelines set forth in this Code. Your business conduct on behalf of the Company must be guided by the policies and guidelines set forth in this Code.

## **WAIVERS**

Waivers of provisions of this Code of Business Conduct and Ethics as to any director or executive officer and amendments to this Code of Business Conduct and Ethics must be approved by a vote of a majority of the members of the Board of Directors.

## **COMPLIANCE CERTIFICATION**

All employees, officers and directors will be asked to certify this Code upon receipt. By certifying, you acknowledge that you have read and understand and will comply with the conditions of this Code.

## **CODE OF BUSINESS CONDUCT AND ETHICS**

I understand that my signature below indicates that I have read and understand Epsilon Energy Ltd.'s Code of Business Conduct and Ethics. I understand that the Chief Financial Officer is available to answer any questions I have regarding the Code and I will comply with the Code for as long as I am a/an \_\_\_\_\_ of Epsilon. I further affirm that I have not entered into any transaction for the benefit of myself with vendors, investors or other parties that are inappropriate or restricted or which have not been properly disclosed.

# CODE OF BUSINESS CONDUCT AND ETHICS

## EXHIBIT "A"

All Epsilon employees, officers and directors are expected to work to ensure prompt and consistent action against unethical or illegal behaviour. Oftentimes a violation of this Code will be easy to recognize and should be promptly reported to supervisor or, if appropriate, a more executive manager. However, in some situations it is difficult to know the appropriate action or response. Since no one can anticipate every situation that will arise, it is important that there is a way to approach a new or sensitive question or concern. Here are some questions that can be asked:

1. What do I need to know?  
In order to reach the right solutions, we must be as fully informed as possible.
2. What specifically am I being asked to do? Does it seem unethical or improper?  
This will focus the inquiry on the specific action in question, and the available alternatives. Use judgment and common sense; if something seems unethical or improper, it probably is
3. What is my responsibility?  
In most situations, there is shared responsibility. Should colleagues be informed? It may help to get others involved and discuss the issue.
4. Have I discussed the issue with a supervisor?  
This is the basic guidance for all situations. In many cases, a supervisor will be more knowledgeable about the question and will appreciate being brought into the decision-making process. Remember that it is the supervisor's responsibility to help solve problems.
5. Should I seek help from Company management?  
In the case which it may not be appropriate to discuss an issue with a supervisor, or where you would not be comfortable approaching a supervisor with your question, discuss it with the Chef Financial Officer.